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## NORTH AYRSHIRE COUNCIL

29 September 2020

### Audit and Scrutiny Committee

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**Title:** Annual Report on the 2019/20 Audit

**Purpose:** To invite the Committee to note the annual audit report for 2019/20 and to consider a verbal report by the external auditor

**Recommendation:** That the Committee (a) notes the audit findings contained in the External Auditor's report on Audit Dimensions and Best Value at Appendix 1; (b) notes the findings of the 2019/20 audit of the financial statements as contained in the External Auditor's final report at Appendix 3, (c) notes the agreed Action Plan as outlined on page 25 of the final report; (d) considers the verbal report by the External Auditor; and (e) approves the audited Annual Accounts for signature.

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#### 1. Executive Summary

- 1.1 As part of the external audit for 2019/20, Deloitte LLP have produced two reports. The first report is the Audit Dimensions and Best Value Report, covering wider scope issues, is attached at Appendix 1. The second report is the Final Report on the Audit of the Financial Statements and includes an opinion on the Council's financial statements, this is attached at Appendix 3.
- 1.2 The Audit Dimensions and Best Value Report provides the Audit and Scrutiny Committee with the external audit findings across the four audit dimensions within the scope of the 2019/20 audit work, these are noted below, and Best Value. For each dimension the report outlines the audit risks, evidence of North Ayrshire's approach and Deloitte's view of the Council's position.
- Financial Management;
  - Financial Sustainability;
  - Governance and Transparency;
  - Value for Money.
- 1.3 The overall conclusions in the Audit Dimensions and Best Value report state that the Council has:
- strong financial management arrangements;
  - has made good progress with its transformation agenda, achieving financial balance for 2019/20 and setting a balanced budget for 2020/21;
  - continues to have strong leadership and robust governance and scrutiny arrangements; and
  - has a clear and robust performance management framework in place.

Although the report highlights ongoing risks in relation to Covid-19, the report notes that appropriate arrangements are in place to respond to the pandemic and assess its financial impact. In relation to Best Value, the report concludes that the Council has robust arrangements in place to secure best value.

- 1.4 The unaudited accounts for the year to 31 March 2020 were approved by Audit and Scrutiny Committee on 24 August 2020 having been submitted to the Council's external auditor, Deloitte LLP, for audit on 29 June 2020. The Audit Director for Deloitte LLP has now issued his proposed Independent Auditor's Report on the financial statements which is free from qualification and confirms that the accounts give a true and fair view of the state of affairs of the Council, its group and the Council's charitable trusts as at 31 March 2020.
- 1.5 As detailed in paragraph 2.9, some adjustments have been identified during the audit process. However, these adjustments do not impact on the reported balance of unearmarked reserves, which remain unchanged at £9.659m.
- 1.6 Deloitte LLP's final report includes an action plan in relation to recommendations for improvement identified during the course of the audit. For the year to 31 March 2020 the areas identified for action relate to changes to the accounting requirements in relation to leases, which will be effective from 2021/22. Details of these and the proposed management actions are included at Page 25 of the Auditor's Report.

## **2. Background**

- 2.1 Deloitte LLP has been designated as the Council's external auditors for the six year period 2016-2022. Deloitte LLP has also been appointed as the auditors for the North Ayrshire Integration Joint Board. 2019/20 is the fourth year of this appointment.

### **Audit Dimensions and Best Value**

- 2.2 A report on the Audit Dimensions and Best Value for 2019/20 has been prepared by the external auditors and is included in appendix 1. This report provides the Audit and Scrutiny Committee with the external audit findings across the four audit dimensions within the scope of the 2019/20 audit work and in relation to Best Value. The audit dimensions include:
  - Financial Management;
  - Financial Sustainability;
  - Governance and Transparency;
  - Value for Money.
- 2.3 The report also incorporates a specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function.
- 2.4 The report includes sections on emerging issues and sector developments which provide a high level assessment of the Council's response to the Climate Change Agenda and a summary of relevant information in relation to Covid-19
- 2.5 An Action Plan has been agreed with the external auditors and this is included in appendix 1 to the report. The Action Plan addresses areas for improvement and includes updates on progress across Transformation, Workforce Planning, Governance and Transparency, which are all noted as being fully implemented.

## 2.6 A summary of the key conclusions from the report include:

### **Financial Management**

The Council has strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund ended the year with an in year net underspend, after earmarking funds to be carried forward to 2020/21. Savings targets were largely achieved and the HRA ended the year with a small surplus. The financial position and variances were transparently reported to Cabinet throughout the year.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly

### **Financial Sustainability**

The Council achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. Although the Council is actively assessing the financial impact of Covid-19, there remains a risk and it is important that the position is closely monitored.

The scale of the Capital Investment Programme over the next 8 years is ambitious and requires strong project management and governance arrangements. It is important that the impact of Covid-19 on future plans is considered.

As reported through the Best Value Assurance Report, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change. The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

### **Governance and Transparency**

The Council continues to have strong leadership in place and robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the Covid-19 pandemic. The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

### **Value for Money**

The Council continues to have a clear and robust performance management framework in place. It also has robust and long standing arrangements in place to comply with the new SPI Direction, including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. The report recognises that the Covid-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

## **Best Value**

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

## **Final Report on the Audit of the Financial Statements**

- 2.7 The Council's accounts for the year to 31 March 2020 were submitted to Deloitte LLP for audit by the deadline of 30 June 2020. The external auditor is required to complete the audit by 30 September 2020 and to report on certain matters arising to those charged with governance in sufficient time to enable appropriate action to be taken before the financial statements are approved and certified.
- 2.8 Appendix 2 includes letters of representation to be signed by the Head of Finance as the responsible officer for North Ayrshire Council. Deloitte LLP's final report to members, which summarises the findings of their audit, is attached at Appendix 3.
- 2.9 Accounting adjustments totalling £5.362m have been identified during the audit process. These adjustments relate to the Council's share of Strathclyde Pension Fund's liabilities. These have been updated for revised valuation information which was provided by the Fund's actuaries after 30 June 2020. The adjustments have been offset by a matching increase in the Council's unusable pension reserves. The reported balance of unearmarked reserves has remained unchanged at £9.659m.
- 2.10 The Council's share of group reserves reported in the Group Balance Sheet has increased by £4.807m, primarily as a result of property revaluations and increases in the value of earmarked funds held by the Strathclyde Partnership for Transport, partly offset by the utilisation of legacy funds reported by North Ayrshire Ventures Trust.
- 2.11 Pages 10 to 19 of the final report outline the significant risks and other matters identified in the audit plan for 2019/20, together with the auditor's views of the key judgements and controls in place. These risks relate to:
- Recognition of Grant Income; and
  - Management Override of Controls.

The report confirms that no material issues were identified in relation to these matters. However, the report notes that the Auditor expects to include an 'Emphasis of Matter' in their Independent Audit Report due to the material uncertainty identified by the valuers concerning property valuations at 31 March 2020, due to the impact of Covid-19 on the property market.

- 2.12 Deloitte LLP have noted that, during the review of Council's IT systems, 2 low priority control deficiencies were identified by their specialists. However, there has been no impact on the audit from these deficiencies and officers have confirmed that compensating controls are in place to mitigate any associated risks.
- 2.13 The final report provides additional information on the impact of Covid-19 on the financial statements and the audit process, highlighting the uncertainties and changes to ways of working during recent months and noting that consideration of these impacts has been included as part of the report where appropriate.

2.14 In relation to the other elements of the financial statements, the final report notes that:

- The Council's Management Commentary has been prepared in accordance with the statutory guidance and in line with best practice;
- The auditable parts of Remuneration Report have been properly prepared in accordance with the regulations; and
- The Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the regulations.

2.15 An Action Plan which sets out the main areas identified for action from the annual report work is detailed on page 25 of the final report. The areas identified are in relation to the implementation of future changes to the accounting requirements for leases, which will be effective from 2021/22, and the recognition that a previous action in relation to the establishments of formal procedures for the timely investigation of items on the bank reconciliation has been fully implemented. Full details of the steps being taken to address the outstanding item has been included in the Action Plan.

2.15 Final testing of the charitable trust accounts is underway. At the date of issuing the attached report, the auditors confirmed that no issues had been found and that a verbal update will be provided to the Committee.

2.16 A link to the final audited accounts will be issued to all members for their information.

2.17 Representatives from Deloitte LLP will be in attendance at Committee and will present a verbal report highlighting the main findings of the 2019/20 audit.

2.18 It should be noted that the auditor has received a statutory objection to the accounts relating to the Common Good and Trust Funds and has been in communication with the objector to consider the issues and evidence provided. Although a final decision has yet to be issued, no further adjustments to the financial statements are anticipated.

### **3. Proposals**

3.1 It is proposed that the Committee (a) notes the audit findings contained in the External Auditor's report on Audit Dimensions and Best Value at Appendix 1; (b) notes the findings of the 2019/20 audit of the financial statements as contained in the External Auditor's final report at Appendix 3, (c) notes the agreed Action Plan as outlined on page 25 of the final report; (d) considers the verbal report by the External Auditor; and (e) approves the audited Annual Accounts for signature.

### **4. Implications/Socio-economic Duty**

#### **Financial**

4.1 The financial implications are as outlined within the report.

#### **Human Resources**

4.2 None.

## **Legal**

- 4.3 Under the Local Authority Accounts (Scotland) Regulations 2014 the Council is required to approve the audited Annual Accounts for signature by 30 September 2020.

## **Equality/Socio-economic**

- 4.4 None.

## **Environmental and Sustainability**

- 4.5 None.

## **Key Priorities**

- 4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

## **Community Wealth Building**

- 4.7 None.

## **5. Consultation**

- 5.1 The Chief Executive, Executive Directors and other appropriate officers have been consulted as part of the audit process.

Mark Boyd  
Head of Service (Finance)

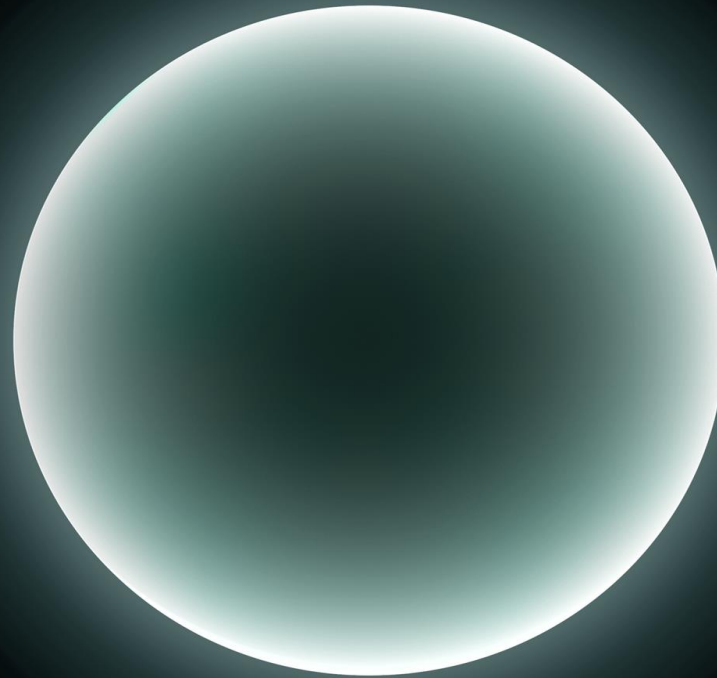
For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551**.

## **Background Papers**

Unaudited Annual Accounts 2019-20 – Audit and Scrutiny Committee 24 August 2020

North Ayrshire Charitable Trusts: Unaudited Trustees' Annual Report 2019/20 – Council 23 September 2020

Best Value Assurance Report – Council 23 September 2020



## **North Ayrshire Council**

Report to the Audit and Scrutiny Committee on the 'audit dimensions  
and best value' for the year ended 31 March 2020

Issued on 14 September for the meeting on 29 September 2020

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# Introduction

## The key messages in this report

### Background:

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

### Scope of audit

Our audit work was risk based and proportionate, covering the four audit dimensions as follows:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

It also incorporated the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function.

Our responsibilities in relation to the Accounts Commission's Strategic Audit Priorities, the 2018 Statutory Performance Information Direction and Best Value have all been incorporated into this audit work.

I have pleasure in presenting our report to the Audit and Scrutiny Committee (the Committee) of North Ayrshire Council (the Council) as part of our 2019/20 audit responsibilities. The Best Value Assurance Report (BVAR) was published in June 2020. This covered a number of areas that are also relevant for the annual audit, therefore has been used to inform our conclusions within this report. I would like to draw your attention to the key messages from this paper.

### Financial Management

The Council has strong financial management arrangements. The General Fund and HRA ended the year with an in-year surplus and savings targets were largely achieved. The financial position and variances were transparently reported to Cabinet throughout the year.

The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

### Financial sustainability

The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

As reported through the BVAR, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change.

The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

### Governance and Transparency

The Council continues to have strong leadership in place and robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

### Value for money

The Council continues to have a clear and robust performance management framework in place. It also has a robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

# Introduction (continued)

## The key messages in this report (continued)

### **Best Value**

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

Our detailed findings and conclusions are included on pages 6 to 21 of this report.

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the Council as an Appendix on pages 25 and 26 of this report.

In particular, we have provided a high level assessment of where the Council is in its response to the Climate Change Agenda, discussed on page 22 and 23.

### **Next steps**

An agreed Action Plan is included at Appendix 29 of this report, including a follow up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

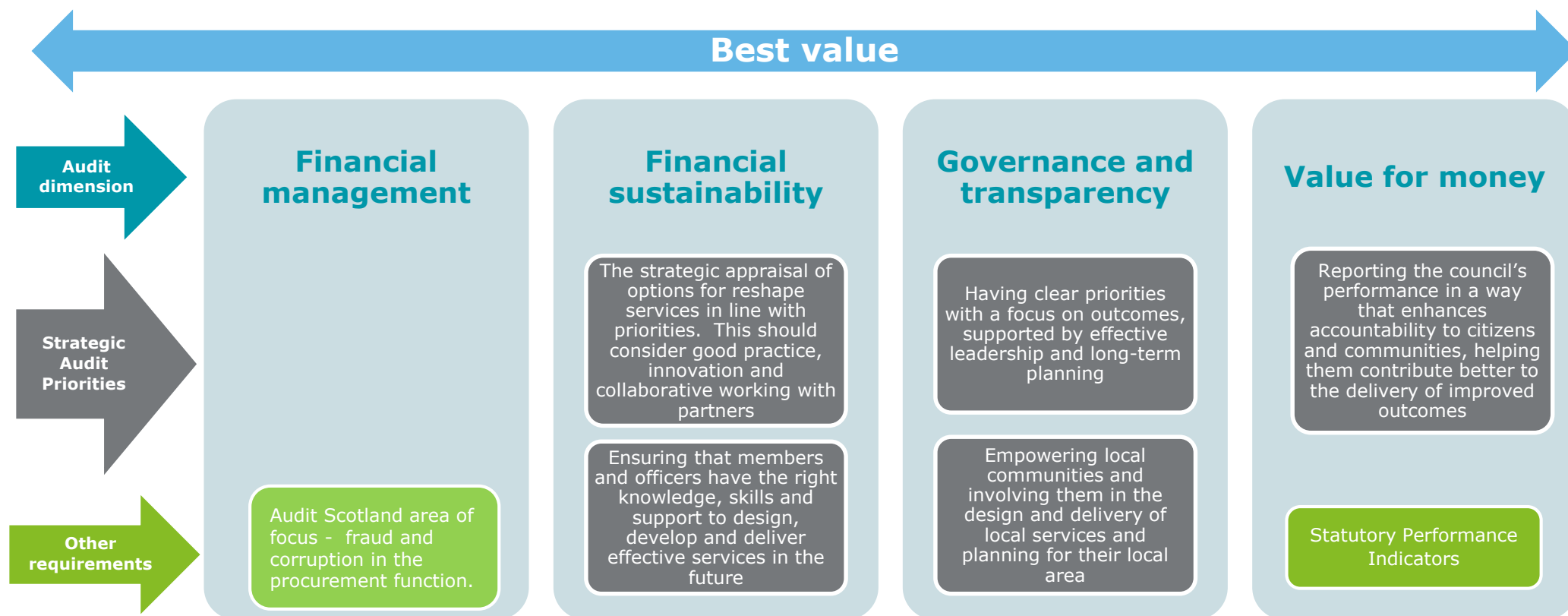
Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

# Audit dimensions and best value

## Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This report sets out our findings and conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on best value, the Accounts Commission's **Strategic Audit Priorities** and the 2018 **Statutory Performance Information** Direction.



**The Islands (Scotland) Act 2018** received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities. We have considered the implications of the Act as part of our consideration of BV arrangements (discussed further on page 21).

# Financial management

**Financial management** is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to financial management, we would continue to review the Council's financial management arrangements including the extent to which the performance impact of in year savings is monitored.

## 2019/20 financial performance

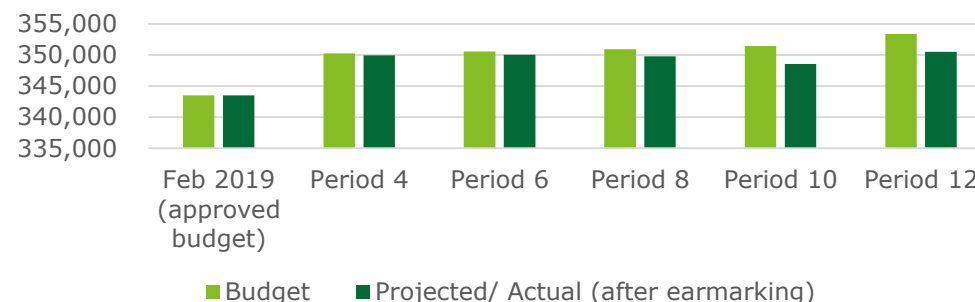
**2018/19 conclusion:** The General Fund and HRA ended the year in a breakeven position. A total of £65m capital expenditure was incurred in the year.

## 2019/20 update:

The **General Fund budget** of £343.521m was approved by the Council in February 2019. Some changes were made to this during the year as a result of additional income being received and carrying forward of earmarked funds from 2018/19, and the final outturn reported actual expenditure of £346.459m. After agreeing to carry forward £4.073m to earmarked reserves and £0.5m to the Insurance Fund, a net in-year underspend of £2.594m was reported.

The Council agreed in March 2020 that any in-year underspends would help mitigate the impact of future COVID-19 costs and support recovery and renewal activities. This balance has therefore been added to the General Fund unearmarked balance (discussed further on page 11).

## General Fund budget performance (£'000)



The key reasons for the variances were:

- **Communities service** – underspend of £1.052m, primarily related to the Early Learning and Childcare expansion programme. This has been earmarked for future years to support the programme in future years.
- **Place service** – underspend of £1.444m. This relates to reduced costs and increased income across a range of services.
- **Corporate services** – underspend of £3.383m, largely relating to funds no longer required to support pension auto-enrolment and Scottish Government funding not yet drawn down.

# Financial management (continued)

## 2019/20 financial performance (continued)

The **Housing Revenue Account (HRA)** end the year with a small underspend of £0.463m compared to breakeven budget. This has been consistently reported to members throughout the year.

The most significant variances relates to an underspend in property costs as a result of a reduction in planned cyclical works.

The council has ambitious **long-term year capital programme, as discussed further on page 12**. Progress against this plan are reported regularly to Cabinet.

The final position for 2019/20 reported £70,799m of capital investment incurred during the year (£33.039m general services and £37.760m housing). The most significant projects included:

- New build Additional Support Needs (ASN) School – incurred £7.376m expenditure in the year (with total projected forecast £25.540m)
- Early Years Estate - £4.540m
- Roads Infrastructure - £3.126m
- Council House build programme - £21.410m
- Refurbishment to housing - £5.754m
- Improvements to housing stock - £5.911m

**2019/20 Conclusion:** the Council continues to have effective financial planning and management arrangements in place, with the final general fund and HRA reporting underspends in year compared to the original budget, which were clearly reported throughout the year, along with regular progress on the capital programme.

## Savings Plans

**2018/19 conclusion:** Savings of £5.094m were achieved in line with budget.

**2019/20:** The approved 2019/20 budget included a need to made savings of £6.278m. Progress against this target was closely monitored through monitoring reports to Cabinet. The final outturn reported that these were largely achieved, with 93% of approved savings delivered.

**Conclusion:** The savings targets set by the Council have increased in comparison with previous years reflecting the financial challenges faced by the Council and need to continually deliver recurring reduction in costs. It is positive to note that whilst the targets are increasing, these have largely been achieved.

## Financial reporting

**2018/19 Conclusion:** The Council has effective financial planning and management arrangements in place.

**2019/20 Update:** The Council approved its 2019/20 budget on 27 February 2019. The Executive Leadership Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Cabinet for both revenue and capital expenditure. From review of the reporting throughout the year, variances are clearly reported and explained.

**2019/20 Conclusion:** The Council continues to have strong financial management arrangements in place. This is consistent with the conclusions in the BVAR report which concluded **"effective financial management arrangements are in place"**.

# Financial management (continued)

## Financial capacity

**2018/19 Conclusion:** The finance team was led by the Executive Director (Finance and Corporate Support) and Head of Finance, both of whom are experienced in local government finance roles. In 2018/19, the IJB appointed a new Head of Finance and Transformation, further enhancing resources and capacity within the HSCP. Previously this role had been performed by the Head of Finance of the Council.

**2019/20 Update:** As part of the Council's senior management restructure, discussed further on page 15, the Executive Director (Finance and Corporate Support) left the Council in June 2020 and the post has been deleted. All Section 95 responsibilities were transferred to the Head of Finance from 1 April 2020, following a lengthy period of handover and as a result, the transition has been smooth. The wider finance team has remained consistent throughout the year.

**2019/20 Conclusion:** The Council has a sufficiently qualified and experienced finance team to support the financial management of the Council. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

## Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2019/20, we have concluded that all significant findings have been appropriately considered as part of the disclosures in the Annual Governance Statement.

Three instances of fraud were reported as part of internal audit work and appropriate action taken to address this. These have been reported to Audit Scotland.

## Standards of conduct for prevention and detection of fraud and error

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be to be designed and implemented appropriately.

## National Fraud Initiative (NFI)

All Council's are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Council's participation and progress in the NFI during 2019/20 and submitted an assessment of the Council's participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2020.

We concluded that the Council was fully engaged in the exercise.

# Financial management (continued)

## Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered the Council's controls and processes as a matter of particular focus, and concluded:

- The risk of procurement fraud is not currently in the Council's risk register, but plans are in place to incorporate this in the next update.
- There are controls in place around the procurement process, including segregation of duties.
- There is a gift and hospitality policy in place to prevent unacceptable instances taking place and systems in place to ensure all acceptable instances are recorded in a register.
- All staff involved in procurement related decisions are trained on how to identify procurement fraud 'red flags' (e.g. excessive entertaining of procurement staff by suppliers).
- Internal Audit coverage of procurement systems is adequate and proportionate to the risks faced by the Council. In 2019/20, Internal Audit carried out a review of procurement cards and procurement spend during 2019/20 and identified a number of actions to improve controls.
- Arrangements are in place to encourage and protect whistleblowers.

Based on the above, we are satisfied that the arrangements for the prevention and detection of fraud and corruption in the procurement function are effective and appropriate.

## Deloitte view – financial management

The Council has strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund ended the year with an in-year net underspend of £2.594m after earmarking £4.073m to be carried forward to 2020/21. Savings targets of £6.278m were largely achieved and the HRA ended the year with a small surplus. The financial position and variances were transparently reported to Cabinet throughout the year.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.



# Financial sustainability

**Financial sustainability** looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

*“There is a risk that the transformation plans, focusing on service redesign, demand management and digital initiatives, are not robust enough to allow the benefits to be realised.”*

## Budget setting

**2018/19 Conclusion:** The Council approved a budget of £343.52m for 2019/20 on 27 February 2019. This incorporated a savings of £6.33m and plans to use £3.88m from reserves. In setting its budget, the Council recognised that, whilst projecting to achieve short-term financial balance, a number of risks existed.

**2019/20 Update:** The Council approved a budget of £357.928m for 2020/21 on 5 March 2020. This incorporated planned savings of £4.330m. The budget also assumes a 4.84% council tax increase in the year.

As concluded in the BVAR “the Council engaged well with elected members and communities as part of the budget process and is continually looking for ways to improve its budget engagement”.

In setting its budget, the Council recognised that, whilst projecting to achieve short-term financial balance, a number of risks exist, including:

- the cost of service delivery exceeding financial provision including: pay, demand led pressures and inflation; not securing in year financial balance; savings not delivered timeously and adequacy of reserves and provisions;
- the financial sustainability of the Health and Social Care Partnership; and
- The delivery of current and future year transformations.

## Impact of COVID-19

The 2020/21 budget was set prior to the COVID-19 pandemic. The pandemic has had a significant impact on the operations of the Council and work is ongoing through COSLA to identify the additional costs being incurred and what additional funding will then become available to support this.

An update was provided to the Cabinet in June 2020 setting out the current projected cost impacts to March 2021 and it was agreed that once developed, Financial Recovery Options were considered at the Cabinet meeting in September 2020.



# Financial sustainability

## Budget setting (continued)

The update to Cabinet included consideration of the Council's subsidiary, North Ayrshire Leisure Limited (KA Leisure). This noted that the current assessment of lost income projected to 31 March 2021, taking into account a phased release of staff back from the Job Retention scheme, amounts to £2.8m. To ensure visibility of cost pressures, this has been included in the overall cost return. The Council are continuing to work with KA Leisure to identify further areas of cost saving to mitigate the financial impact.

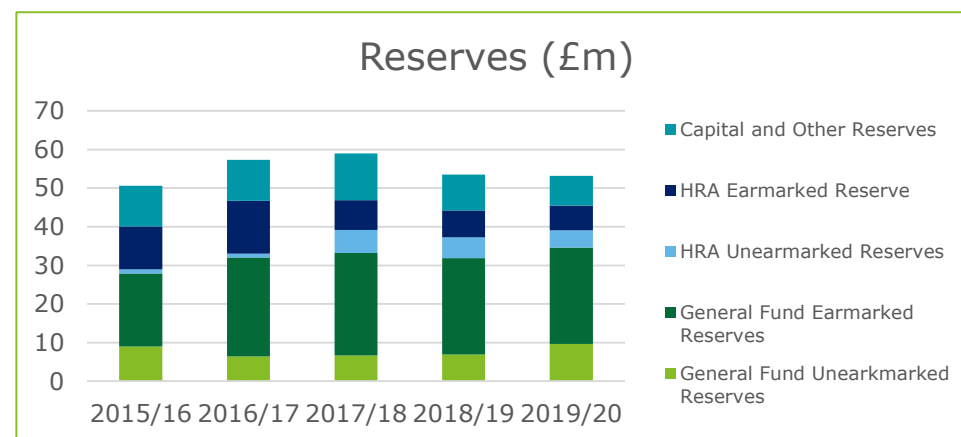
**2019/20 Conclusion:** The impact of COVID-19 on the ability to achieve short-term financial sustainability presents a risk to the Council. As noted on page 9, the Council has a robust planning and monitoring process in place for achieving savings and has, historically, achieved the majority of savings targets in place. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

## Reserves

**2018/19 Conclusion:** The Council has used reserves in setting its budget over the last few years. This included a reduction in unearmarked reserves to the current level of 2% of net expenditure. It recognised that use of reserves provides a temporary solution but requires a more sustainable approach to be developed. It's Reserve Strategy is a risk specific approach and in line with best practice.

**2019/20 Update:** At the time of approval of the 2020/21 budget, the Council carried out its annual review of its Reserve and Fund Balances in line with good practice. This took into account known commitments, potential liabilities and the risk profile of the Council to provide flexibility to deal with unforeseen circumstances.

The total reserves position for the Council at 31 March 2020 and movement over the last five years is illustrated below, with the general fund unearmarked balance representing 2.7% of budget. As noted on page 6, the Council achieved a net underspend of £2.594m in 2019/20, which has been added to the unearmarked General Fund and will be available to help mitigate the impact of future COVID-19 costs and support recovery and renewal activities.



In line with previous year, in approving its budget, the Council again highlighted that it had used reserves in setting its budget over the last few years, and reduced the unearmarked reserves to the current 2% minimum, release of earmarked reserves no longer required and application of in year underspends. As noted in previous years the Council recognise the use of reserves provides a temporary solution and a more sustainable solution is needed. In 2020/21, following a review of earmarked reserves, a total of £0.548m was released to support the 2020/21 budget.

# Financial sustainability

## Reserves (continued)

In addition, the Council agreed as part of its budget setting process to set-aside £8.8m as an Investment Fund to support Community Wealth Building activity, deliver sustainable investment in the environment and support the economy. This was largely possible as a result of a review of the loans fund advances following a change in regulation which allowed the Council to revise its debt repayment timelines. While there is no change to the overall level of loans fund advances that the Council needs to repay, the re-proofing of the principal and interest payments allowed the Council to transfer £8.8m to reserves.

**2019/20 Conclusion:** The current reserves held are at an acceptable level. As discussed on page 10, the impact of the COVID-19 pandemic is having a significant impact on the Council. We note that the Council is planning to re-assess the 2020/21 budget, and would expect the reserves balances to be considered as part of this review.

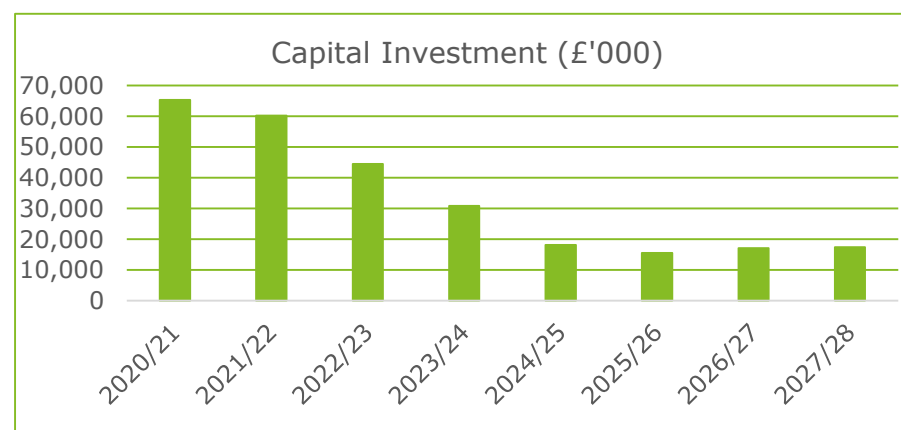
## Capital planning and treasury management

**2018/19 Conclusion:** The Council has a Capital Investment Programme (CIP) covering the period 2019/20 to 2027/28. The CIP incorporates all funding sources to 2027/28, including assumed levels of general capital grant, specific grants and a prudent assessment of the level of capital receipts

**2019/20 Update:** The Council updates its Capital Investment Plan (CIP) on an annual basis as part of its budget setting process. The HRA capital programme is also updated annually as part of the annual report of the HRA Business Plan.

As concluded in the BVAR “the capital planning process clearly aligns investments with Council priorities”.

The graph below illustrates the projected CIP over the next 8 years, which again shows that the Council continues to have an ambitious capital programme. In addition, the Council has approved £68.448m HRA capital expenditure for 2020/21 and a further £27.657m for future years.



As noted on page 7, the Council has demonstrated a history of managing its capital programme. However, also noted on page 10, the Council has recognised that it will need to revisit this programme in light of the impact of COVID-19.

**2019/20 Conclusion:** The capital planning process clearly aligns investments with Council priorities and the Council has a history of managing its capital programme. Given the scale of the programme over the next 8 years, it is imperative that this continues. It is important that the impact of COVID-19 on future plans is also considered.

# Financial sustainability (continued)

## Medium to long-term financial planning

**2018/19 Conclusion:** The Council has a clear process in place for medium and long term financial planning. The Medium Term Financial Plan (MTFP) was updated in February 2019 to cover the period 2019/20 to 2021/22. The MTFP sets a balanced budget for 2019/20, however, indicates a deficit of £14.67m and £10.74m in 2020/21 and 2021/22 respectively. The Long Term Financial Outlook (LTFO) covering the period 2018/19 to 2027/28. The LTFO includes the significant financial challenges the Council faces over the next 10 years and the approach to respond to this. This includes service reviews and associated delivery plans. The LTFO is updated every three to four years.

**2019/20 Update:** As reported in detail in the BVAR:

- the Council has a ten-year long-term financial outlook (LTFO) covering the period 2018/19 to 2027/28. This identified an estimated funding shortfall of £156m over this period. The approach taken by North Ayrshire Council was highlighted as a positive step to help manage the financial challenges and to make well-informed decisions which are aligned to Council priorities.
- The LTFO provides the context for a more detailed Medium-Term Financial Plan (MTFP) and annual budgets. The latest MTFP, covering the period 2020/21 to 2022/23, builds on previous year's MTFP and the analysis within the LTFO. The Council agreed a balanced budget for 2020/21, however, gaps of £9.248m and £9.817m remain for 2021/22 and 2022/23 respectively.

**2019/20 Conclusion:** It is positive to note that the Council continues revisits the medium-term position as part of its annual budget process and has a history of achieving in-year savings. In addition, as noted in the BVAR, the publication of a ten-year outlook is also considered best practice. However, the Council is still faced with a significant shortfall in future years. As noted on page 10, the impact of COVID-19 is expected to have a significant impact over the medium to longer term, and therefore the estimated financial impact of these challenges is likely to change.

## Transformation Strategy

**2018/19 Conclusion:** The Council had done a lot of work around transformation planning, such as creating the Transformation Think Tank and incorporating the next phase of transformation into the Council Plan. It has identified an ambitious savings target over the next three financial years from transformation, however, this does not completely close the estimated cumulative funding gap of £25.41m. We highlighted that it was therefore vital that the Council identify further savings and efficiencies to close the remaining funding gap. We highlighted the importance of detailed plans to deliver these targets and monitors the progress of key objectives and outcomes to ensure savings remain on track over these years. If the next phase was not progressed appropriately, we highlighted that this could result in benefits not being realised and financial balance not being achieved.

**2019/20 Update:** As concluded in the BVAR:

*"the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place".*

*"the Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change".*

The BVAR made two specific recommendation in relation to transformation, which are discussed on page 21. We will continue to monitor the progress as part of our 2020/21 audit.

# Financial sustainability (continued)

## Transformation Strategy

**2019/20 Conclusion:** some good progress has been made with transformation, however, significant work is still required to develop and implement detailed plans to address the financial challenges faced. We recognise that COVID-19 is likely to further impact on future plans.

## Ayrshire Growth Deal

The Ayrshire Growth Deal (AGD) is key component of the Councils long-term strategy. The Growth Deal was developed by the Ayrshire Regional Economic Partnership. It represents a £250 million investment across North Ayrshire, East Ayrshire and South Ayrshire and addresses local economic challenges with its strong focus on inclusive growth. The council worked closely with a range of partners to develop the proposal for the Growth Deal.

The Ayrshire Economic Joint Committee is responsible for the governance of the Growth Deal and the Ayrshire Regional Economic Partnership. The committee has 13 members, including three from each council, as well as representatives from the education and business sectors, Scottish Enterprise, and Skills Development Scotland. There is also a subcommittee which has higher levels of representation from the business and education sectors.

The AGD has yet to be signed off, so it is clearly too early to report on the progress of deal projects. There is a strong collaborative ethos, however, within the Ayrshire Regional Economic Partnership, and members from all sectors are committed to the development and delivery of the deal.

## Deloitte view – Financial sustainability

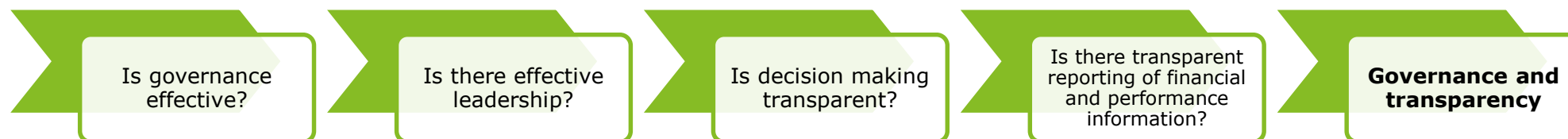
As discussed on page 9, the Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

The scale of the CIP over the next 8 years is ambitious and requires strong project management and governance arrangements in place over the projects involved. It is important that the impact of COVID-19 on future plans is also considered.

As reported through the BVAR, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change. The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

# Governance and transparency

**Governance and transparency** is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to governance and transparency, we have continued to monitor the Council's approach to governance and transparency, specifically focusing on the work around the transformation plans.

Our audit plan did highlight a risk that the change to the management structure may have an adverse impact on service delivery therefore we have closely monitored how the management structure has progressed.

In relation to the IJB, we identified in our audit plan that there continues to be an ongoing risk that the IJB does not achieve the full benefits of integration along with a balanced budget position.

## Leadership

**2018/19 Conclusion:** The Council had changes to leadership in 2018/19 with the appointment of a new Chief Executive. This allowed the Council to approve a wider Directorate restructure. Whilst the new structure wasn't expected to be fully implemented until 2020/21, we highlighted the need for the Council to ensure that the change in structure did not have an adverse impact on capacity to deliver services.

**2019/20 Update:** As reported in detail as part of the BVAR, the Executive Leadership Team was in the process of being restructured, with all services clearly aligned to the priorities in the Council Plan. The restructure was completed in June 2020. The BVAR concluded.

"the leadership team and elected members work very well together".

**2019/20 Conclusion:** The Council continues to have strong leadership in place.

## Governance and scrutiny arrangements

**2018/19 Conclusion:** The Council has effective governance structures. In order to ensure that the governance and scrutiny framework is continually improving, we recommended that the Council consider an annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

**2019/20 Update:** The Audit and Scrutiny Committee continues to play a key role in the governance and scrutiny arrangements of the Council. It considers reports from internal audit throughout the year as well as other relevant national reports. In line with good practice and as recommended in our 2018/19 report, the Committee now carries out an annual self assessment to consider the development needs of elected members.

The Council's Committee structures were temporarily suspended during the COVID-19 outbreak with all meetings suspended until 30 June 2020. During this period, the Council's Scheme of Delegation to Officers already allowed the Chief Executive, to consider and deal with any urgent issues, subject to reporting back to the Cabinet for information at the first available opportunity. This power was exercised in consultation with the relevant Chief Officer and the relevant portfolio holder. In the interest of transparency, decision notices in respect of matters determined under the emergency governance arrangements are published on the Council's website on a fortnightly basis, together with the relevant officers' report.

Prior to the summer recess in June 2020, the Planning Committee, the IJB Performance and Audit Committee and Cabinet (Education) met and plans are in place for all Committees to restart after the recess.

**2019/20 Conclusion:** The Council continues to have robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

## Openness and transparency

**2018/19 Conclusion:** We were are satisfied that the Council prioritises the principles of openness and transparency, and operated in an open and transparent manner throughout the year.

**2019/20 Update:** The Council has continued to be open and transparent with its decision making, as concluded in the BVAR:

*"The Council is open and transparent in its decision-making. It streams full Council and Cabinet meetings on its website".*

**2019/20 Conclusion:** In line with our previous year's conclusions and that of the BVAR, the Council continues to be open and transparent.

## Community engagement and equalities

**2018/19 Conclusion:** The Council fully supports community empowerment and recognises the importance of building community capacity, we highlighted the Council's approach to community engagement as best practice and sector leading.

**2019/20 Update:** Community engagement and empowerment was a key area of focus in the BVAR work. This concluded that:

*"The Council is committed to community empowerment and is recognised by the Scottish Government and COLSA as a sector leader. The Council's approach is focused on embedding community empowerment in everyday business. The Council works well with a wide number of communities and groups including young people and tenants".*

*"Tackling inequality is the overarching theme of both the Council Plan and the Local Outcome Improvement Plan".*

**2019/20 Conclusion:** The Council continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.



# Governance and transparency (continued)

## Health and social care partnership

**2018/19 Conclusion:** The final financial position for the IJB in 2018/19 was an improvement on the prior year, particularly given the significant historical overspends. Improvements had been made to the quality and frequency of financial monitoring reports and we concluded that there was now an effective integrated budget monitoring arrangement in place.

**2019/20 Update:** While the IJB has achieved short-term financial balance, it has been unable to repay any of the debt due to the Council in 2019/20 and a number of risks remain with the 2020/21 budget, in particular the impact of COVID-19. The Medium-Term Financial Plan has not yet been updated, with further delays as a result of management focusing on responding to COVID-19. The IJB is therefore unable to evidence it is financially sustainable in the medium-to longer term. In view of the financial position, the Council has continued its increased scrutiny of the IJB with regular reports to the Cabinet and Audit and Scrutiny Committee.

As reported in the BVAR, the IJB is progressing with its transformation programme and taking an innovative approach to determine future service delivery. Significant work is still required to make the level of transformational change needed, with COVID-19 likely to impact on timelines and plans.

The IJB continues to have strong leadership. As it starts to develop its next Strategic Plan, it is important that this work is progressed in line with the updated MTFP.

**2019/20 Conclusion:** The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging.

## Following the public pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

Within the Internal Audit plan there is specific time set aside to review "Following the public pound" during the year as part of the work performed. This includes an annual audit of Community Councils' accounts to ensure Council funding is used in accordance with the Council's Scheme of Administration and an annual audit of the accounts of various Tenants and Residents Associations. Additionally, the Council supports KA Leisure and the Community Investment Fund, where collaborative projects are developed, supported and monitored by the Council within the locality planning framework. We are therefore satisfied that the Council complies with the Following the Public Pound Code.

### Deloitte view – governance and transparency

The Council continues to have strong leadership in place and robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

# Value for money

**Value for money** is concerned with using resources effectively and continually improving services.



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to value for money, we have continued to review the Council's performance against the Performance Management Framework, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council.

## Performance management framework

**2018/19 Conclusion:** There is a clear framework in place to ensure that Council performance is monitored and reported. The Council's approach to focused performance improvement in specific areas is effective, as evidenced by the improvement in local performance indicators.

**2019/20 Update:** An overall assessment of outcomes and performance and the reporting of these was a key area of focus in the BVAR work. This concluded:

"Performance reporting systems are clearly focused on priority areas. Targets are realistic and kept under review. Performance information is readily available in a variety of formats. Reports have become more user-friendly and focused in recent years".

**2019/20 Conclusion:** The Council continues to have a clear and robust performance management framework in place.

## Statutory performance indicators (SPIs)

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which applies from 2019/20 and requires a council to report a range of information in the following areas:

### SPI 1: Improving local services and outcomes

- performance in improving local public services provided by (1) the council itself and (2) by the council in conjunction with its partners and communities; and
- progress against desired outcomes.



# Value for money (continued)

## Statutory performance indicators (SPIs) (continued)

### SPI 2: Demonstrating Best Value (BV)

- The Council's assessment of how it is performing against its duty of BV, and how it plans to improve against this assessment;
- audit assessments of how its performance against its Best Value duty, and how it has responded to these assessments; and
- in particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place.

In view of the approach embedded within the Council for a number of years, with performance monitored through the Community Planning Partnership (CPP) and LOIP, the requirement to report on performance for both the Council and with its partner communities was already standard practice. As noted on page 18, the BVAR work concluded robust performance management arrangements in place. In addition, the BVAR noted "the CPP has a clear strategic direction and partners are committed to working together to improve outcomes".

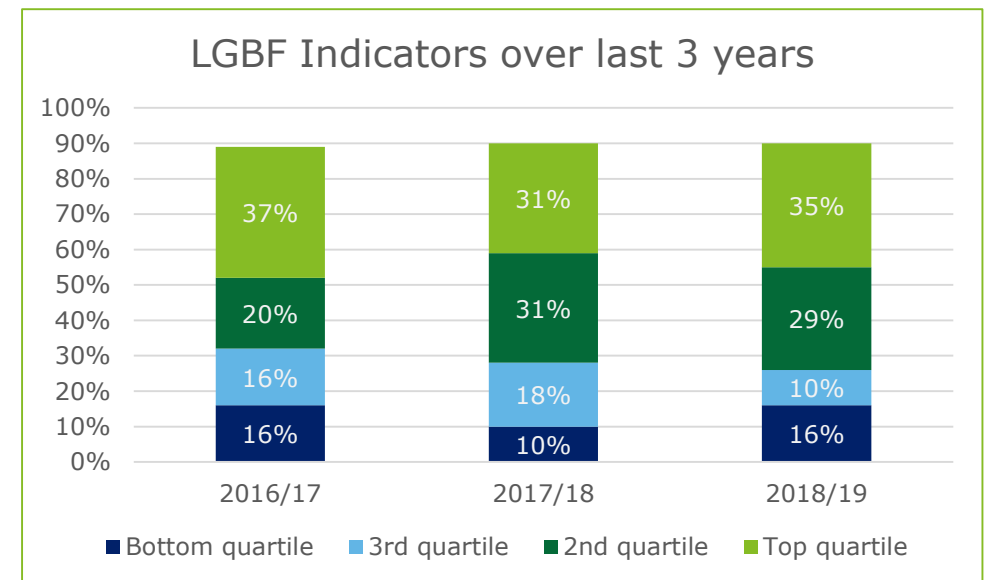
In addition, as reported in the BVAR, the Council has a strong culture of continuous improvement and has embraced the principles of community empowerment (discussed further on page 16).

**2019/20 Conclusion:** The Council has robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

## Performance data

**2018/19 Conclusion:** Council performance against local indicators which fell significantly adrift of targets reduced from 15% to 11% in 2018/19, whilst performance indicators on target increased from 55% to 63%. This evidenced that performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19.

**2019/20 Update:** We have drawn on the LGBF to make a high level assessment of the Council's performance, relative to all Scottish councils, in 2018/19 (the latest data available). The LGBF includes a number of indicators organised under common service areas. Performance is summarised in the following charts. The Council has considered these indicators as part of its wider performance monitoring.

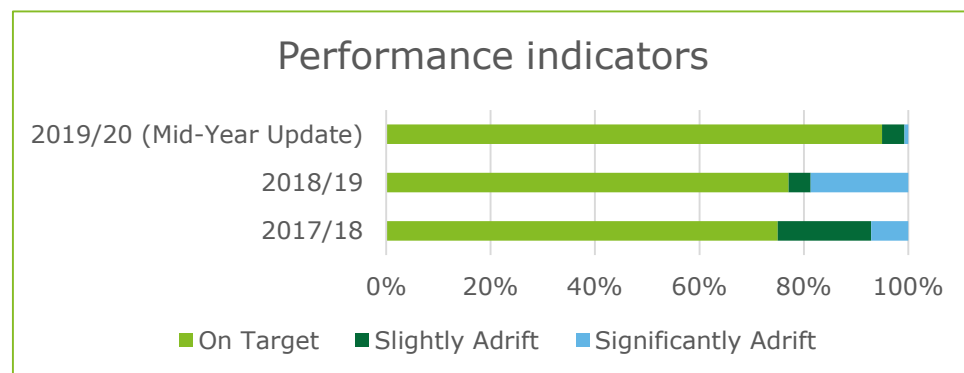


# Value for money (continued)

## Performance data (continued)

64% of indicators in 2018/19 (2017/18: 62%, 2016/17: 57%) were either in the top quartile or second quartile, i.e. performing above the Scottish average, demonstrating that the Council is performing well compared to their peers.

The annual performance report for 2018/19 was published in September 2019 and included the full range of performance that is reported by the Council. The mid-year update for 2019/20 reported improvements, as illustrated below.



In assessing how well the Council was performing, the BVAR concluded:

“North Ayrshire has one of the highest rates of deprivation in Scotland. It also has a shrinking population, particularly among the economically active. These factors present significant challenges for the Council. Despite this, the Council is performing well and is a frequent award winner and early adopter of national pilots.

Council performance has improved over the last five years, though, like other councils, it has levelled off in the last year. There has been a deterioration in most education performance indicators, which the Council is working to address”

**2019/20 Conclusion:** The performance of the Council is showing evidence of improvements in a number of areas. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

### Deloitte view – Value for money

The Council continues to have a clear and robust performance management framework in place. It also has a robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

# Best value

It is the duty of the Council to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

## Duty to secure best value

1. It is the duty of the Council to make arrangements which secure best value
2. Best value is continuous improvement in the performance of the Council's functions
3. In securing best value, the Council shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions.
  - b) The cost to the Council of that performance.
  - c) The cost to persons of any service provided by the Council for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the Council shall have regard to:
  - a) Efficiency.
  - b) Effectiveness.
  - c) Economy.
  - d) The need to meet the equal opportunity requirements.
5. The Council shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of a Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

## BV arrangements

The BV framework follows a five year approach to auditing BV. 2019/20 represents year four of the BV audit plan. The BVAR for North Ayrshire Council during 2019/20 with the report published in June 2020.

As concluded in the BVAR in the Commission findings:

"We commend the significant progress made by the Council since the previous Best Value report in March 2011. The core of this progress has been a good sense of self-awareness; the Council has been clear on how and where it can improve, has a well-defined strategy, and shared with its partners a strong vision for North Ayrshire. This strategic direction is reinforced by a record of collaboration; between elected members and officers; in engaging with staff in improvement; and in the empowering approach taken by the Council in its relationship with its communities".

Through our annual audit work, discussed further within this report, the Council continues to have a number of arrangements in place to secure best value, including an established governance framework, strong leadership, and is making some good progress with transformation, but recognises that significant work is still required.

The Council recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is still required to achieve long-term financial sustainability.

The Chief Executive has shared the BVAR through the Council's website and will be formally considered by the Council meeting in September 2020. We will follow up progress with the agreed actions as part of our 2020/21 annual audit work.

In relation to the new requirements in relation to the Islands Act, North Ayrshire Council have added island assessment to its equalities and socio-economic assessment templates. As a result, every policy and strategy should now be automatically subject to island assessment.

## Deloitte view – best value

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

# Emerging issues

## Climate change

### Background

As noted in our audit plan, climate change is likely to drive some of the most profound changes to businesses in our lifetime. The global response to the COVID-19 pandemic could inform the fight against climate change and advantages taken of the inevitable response, such as less unnecessary air travel for business meetings, more home working, supported by better videoconferencing facilities. In collaboration with the ICAEW, Deloitte have launched a site to [www.deloitte.co.uk/climatechange](http://www.deloitte.co.uk/climatechange)

### Council preparedness

As part of our audit work in 2019/20, we have carried out a high level assessment of the work that North Ayrshire Council has done in relation to preparing for the impact of Climate Change and concluded as follows:

#### Baseline expectations

**Governance:** Climate change is a strategic issue and should be on the Council agenda. Explain how you assess climate change risk as a strategic issue.

#### North Ayrshire Council position

Climate change is clearly on the Council's agenda, as evidenced from the following examples:

- As highlighted in the BVAR, the Council declared a climate emergency in 2019, and changed its aim to reduce carbon emissions by 40% by 2030 to the aim of becoming carbon neutral by 2030.
- The BVAR incorporated a case study highlighted that North Ayrshire Council has a proactive and ambitious approach to tackling climate change.
- It has engaged with communities on the latest update to its Environmental Sustainability and Climate Change Strategy, which was first published in 2014 and last updated in 2017. The Council engaged with communities on updating the strategy for 2020.
- Several transformation initiatives are linked to reducing carbon emissions.
- The Council approved an £8.8m investment fund for climate change, infrastructure and community wealth building in its 2020/21 budget.

# Emerging issues (continued)

## Climate change (continued)

### Council preparedness (continued)

#### Baseline expectations (continued)

**Risks and Strategy:** Articulate clearly whether climate change represents a principal or emerging risk and how it is being managed.

To reflect the recent declaration by the Council of a climate change emergency, the Strategic Risk Register was updated in March 2020 to include Climate Change as a "High Risk" to the Council.

**Targets and metrics:** If targets and metrics are disclosed, explain how those targets or metrics fit into strategic targets/ approach.

The Climate Change (Scotland) Act 2009 set a long-term target to reduce emissions of greenhouse gases by at least 80% in 2050. Over the past 10 years, the Council's annual Climate Change Declaration has evidenced the Council's progress towards achieving these targets. However, recent scientific evidence, presented to the Committee on Climate Change, has set out that a greater level of change is needed.

The Scottish Government passed the Climate (Scotland) Act which received Royal Assent on 31 October 2019. This Act legislates new, more stringent, targets for Carbon reduction.

An update was reported to Cabinet in January 2020 where it noted the successes and progress made in implementing the Environmental Sustainability and Climate Change Strategy 2017-2020 and agreed the proposed target year of 2030 to achieve net-zero carbon emissions across North Ayrshire.

**Reporting/ Financial Statements:** Transparency in the annual report

Narrative is included in the 2019/20 Annual Report and Accounts as part of "Our Challenges and Areas of Focus", making specific reference to the Climate Change Strategy and the fact that the Council has declared a state of Climate Change Emergency with an ambition towards achieving a net zero carbon footprint.

The Council may want to consider including more narrative within future Annual Reports to set out what work the Council is doing to address this Climate Change risk.

# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### An emerging legacy

#### How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>



# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>



# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties. Our report includes our work on the following:

- Financial management
- Financial sustainability
- Governance and transparency
- Value for money

### The scope of our work

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

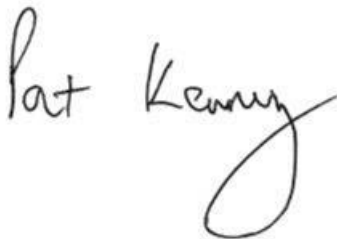
### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**  
**For and on behalf of Deloitte LLP**  
Glasgow | 14 September 2020

# Action plan

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and are pleased to note that all recommendations made have been fully implemented, with follow up actions being monitored as part of the BVAR work (see page 21).

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<b>Financial sustainability – Transformation</b>	The proposed savings targets for the next phase of transformation are ambitious, therefore, it is important the Council has the supporting infrastructure in place. We recommend the Council has detailed plans in place to deliver the next phase of transformation and monitors the progress of key objectives and outcomes of these with appropriate benefit realisation tools.	The Transformation Think Tank will review the governance that underpins planning and delivery of our transformation programme. This will include benefits realisation.	Chief Executive	December 2019	High	<i>Fully implemented. Follow up recommendation considered as part of BVAR (see page 21)</i>
<b>Financial sustainability – Workforce planning</b>	The Council's new approach to workforce planning is still in its early stages, so it is important that the Council monitor this new way of working closely to ensure workforce planning across the whole Council is effective.	Our workforce planning has been evolving since being established in 2018. This is a key component of our planning framework and regular updates on progress will continue to be provided.	Executive Director (Finance and Corporate Support)	March 2020	High	<i>Fully implemented. Follow up recommendation considered as part of BVAR (see page 21)</i>
<b>Governance and transparency – Self evaluation</b>	The Council should consider annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.	CIPFA's "Delivering Good Governance in Local Government" is already adopted and an annual report to Council reviewing core governance documentation is produced. To assess the effectiveness of the current Audit and Scrutiny committee a self-assessment will be undertaken in line with best practice frameworks.	Chief Executive	March 2020	Medium	<i>Fully implemented</i>



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**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

If telephoning please ask for: **Mark Boyd 01294 324560**

Our Ref: PK/NAC2020

29 September 2020

Deloitte LLP  
110 Queen Street  
Glasgow  
G1 3BX

Dear Pat Kenny,

This representation letter is provided in connection with your audit of the financial statements of North Ayrshire Council ('the entity') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the entity as of 31 March 2020 and of the results of its operations, other comprehensive net expenditure and its cash flows for the year then ended in accordance with the applicable accounting framework as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of the other information in the annual report, for the purposes set out in the Code of Audit Practice 2016.

We are aware that it is an offence to mislead an auditor of a public body.

On behalf of the entity, I confirm as Responsible Financial Officer, to the best of my knowledge and belief, the following representations.

#### Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework, as set out in the Code of Practice on Local Authority Accounting in the United Kingdom, which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the entity are reasonable. We have made sufficient and appropriate disclosure of the general increased estimation uncertainty arising from the impact of Covid-19.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed. The impact of Covid-19 has been considered a non-adjusting event given the timing of the outbreak of the epidemic in the United Kingdom.
5. There are no uncorrected misstatements and disclosure deficiencies.
6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. The entity has satisfactory title to all assets and there are no liens or encumbrances on the entity's assets and assets pledged as collateral.
8. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
9. We have reconsidered the remaining useful lives of the property, plant and equipment and confirm that the present rates of depreciation are appropriate to amortise the cost less residual value over the remaining useful lives.
10. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of property, plant and equipment may not be recoverable.
11. With respect to accounting estimates, we confirm:
  - the measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently;
  - the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  - the disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate; and
  - there have been no subsequent events that require adjustment to the accounting estimates and disclosures included in the financial statements.
12. We confirm that we consider the depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.
13. We confirm that the provisions included within the financial statements are our best estimate of the liability due by the entity.

14. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with our best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the entity;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

#### Information provided

15. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland.
16. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
17. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error. We are not aware of any deficiencies in internal control of which you should be aware.
18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
19. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
20. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
21. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

22. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
23. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.
24. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
25. We confirm that:
  - (i) we consider that the entity has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
  - (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
25. All minutes of Council and Committee meetings during and since the financial year have been made available to you.
26. We have drawn to your attention all correspondence and notes of meetings with regulators.
27. We confirm that all of the disclosures relating to sections of the annual report which are considered 'other information' as set out in the Code of Audit Practice 2016 have been prepared in accordance with relevant legislation and guidance.
28. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Mark Boyd**  
Head of Finance

Signed as Responsible Financial Officer, for and on behalf of North Ayrshire Council.





**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

If telephoning please ask for: **Mark Boyd 01294 324560**

Our Ref: SA/ZET/2020

29 September 2020

Deloitte LLP  
110 Queen Street  
Glasgow  
G1 3BX

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of North Ayrshire Council Trust Funds ('the entity') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements properly present the receipts and payments of the charity as of 31 March 2020 and their statement of balances at that date in accordance with the applicable accounting framework and the Charities and Trustee Investment (Scotland) Act 2005.

We are aware that it is an offence to mislead an auditor of a public body.

On behalf of the entity, I confirm as a Trustee, to the best of my knowledge and belief, the following representations.

#### Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities and Trustee Investment (Scotland) Act 2005 which present fairly, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value and assessing the impact of Covid-19 on the entity are reasonable. We have made sufficient and appropriate disclosure of the general increased estimation uncertainty arising from the impact of Covid-19. We have made sufficient and appropriate disclosure of the specific material uncertainty highlighted by our valuers in relation to the valuation of property assets and are satisfied that this does not undermine the reliability of the estimate.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed. The impact of Covid-19 has been considered a non-adjusting event given the timing of the outbreak of the epidemic in the United Kingdom.

5. There are no uncorrected misstatements and disclosure deficiencies.
6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to cease operations as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of property, plant and equipment may not be recoverable.

#### Information provided

8. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland.
9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error. We are not aware of any deficiencies in internal control of which you should be aware.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.
15. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
16. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. No other claims in connection with litigation have been or are expected to be received.

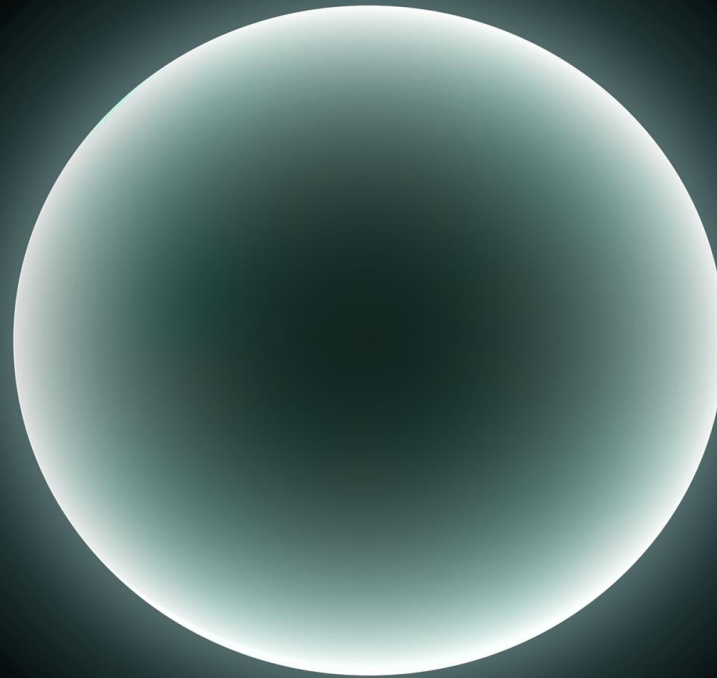
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
18. We confirm that:
  - (i) we consider that the entity has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and
  - (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
19. All minutes of Council and Committee meetings during and since the financial year have been made available to you.
20. We have drawn to your attention all correspondence and notes of meetings with regulators.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

**Mark Boyd**  
Head of Finance

Signed for and on behalf of the Trustees.



## **North Ayrshire Council**

Report to the Audit and Scrutiny Committee, Members of the  
Council and the Controller of Audit on the 2019/20 audit

Issued on 14 September for the meeting on 29 September 2020

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# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Scrutiny Committee ("the Committee") of North Ayrshire Council ("the Council") for the year ending 31 March 2020 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by Council staff in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to work to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers' duty to secure best value.



# Introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuers in relation to the valuation of the Council's estate. As a result, we expect to include an 'Emphasis of Matter' paragraph within our audit report.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Council.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

No uncorrected misstatements in excess of our reporting threshold of £250,000 or material disclosure deficiencies have been identified up to the date of this report.

### **Status of the financial statements audit**

Outstanding matters to conclude the audit include:

- Receipt of outstanding borrowings confirmations;
- Finalisation of charitable trusts audits;
- Completion of WGA audit;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2020.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland.

Our separate detailed report is presented along with this paper and sets out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While our reports makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the Council at this stage.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

**Financial Management** - The Council has strong financial management arrangements. The General Fund and HRA ended the year with an in-year surplus and savings targets were largely achieved. The financial position and variances were transparently reported to Cabinet throughout the year. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

**Financial sustainability** - The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

As reported through the BVAR, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change.

The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

**Governance and transparency** - The Council continues to have strong leadership in place and robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

**Value for money** - The Council continues to have a clear and robust performance management framework in place. It also has a robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery.

**Best Value** - The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.



# Introduction (continued)

## The key messages in this report (continued)

### **Next steps**

An agreed Action Plan is included as an Appendix on page 30 of this report in relation to the financial statements audit where we have followed up previous years actions. A separate Action Plan on the findings of the audit dimensions work is included in our separate report. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout both of our reports. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

**Pat Kenny**  
**Audit Director**

# Financial statements audit



# Quality indicators

## Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements	●	Management demonstrated a clear understanding of key accounting judgements and estimates made in the preparation of the Annual Report and Accounts and provided sufficient appropriate evidence of good quality to support these.
Adherence to deliverables timetable	●	Key deliverables were provided in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned.
Access to finance team and other key personnel	●	Deloitte and the Council have worked together to facilitate remote communication during the audit. This has included effective use of such technologies as Microsoft Team and Deloitte Connect.
Quality and accuracy of management accounting papers	●	On the whole documentation provided has been a good standard. This included documentation that reconciled to the draft financial statements.
Quality of draft financial statements	●	A full draft of the annual report and accounts was received for audit on 29 June 2020. The draft was of a high standard with limited changes required.
Response to control deficiencies identified	●	We have not identified any significant control deficiencies during the course of our audit.
Volume and magnitude of identified errors	●	We have not identified any significant financial adjustments to date.



Lagging



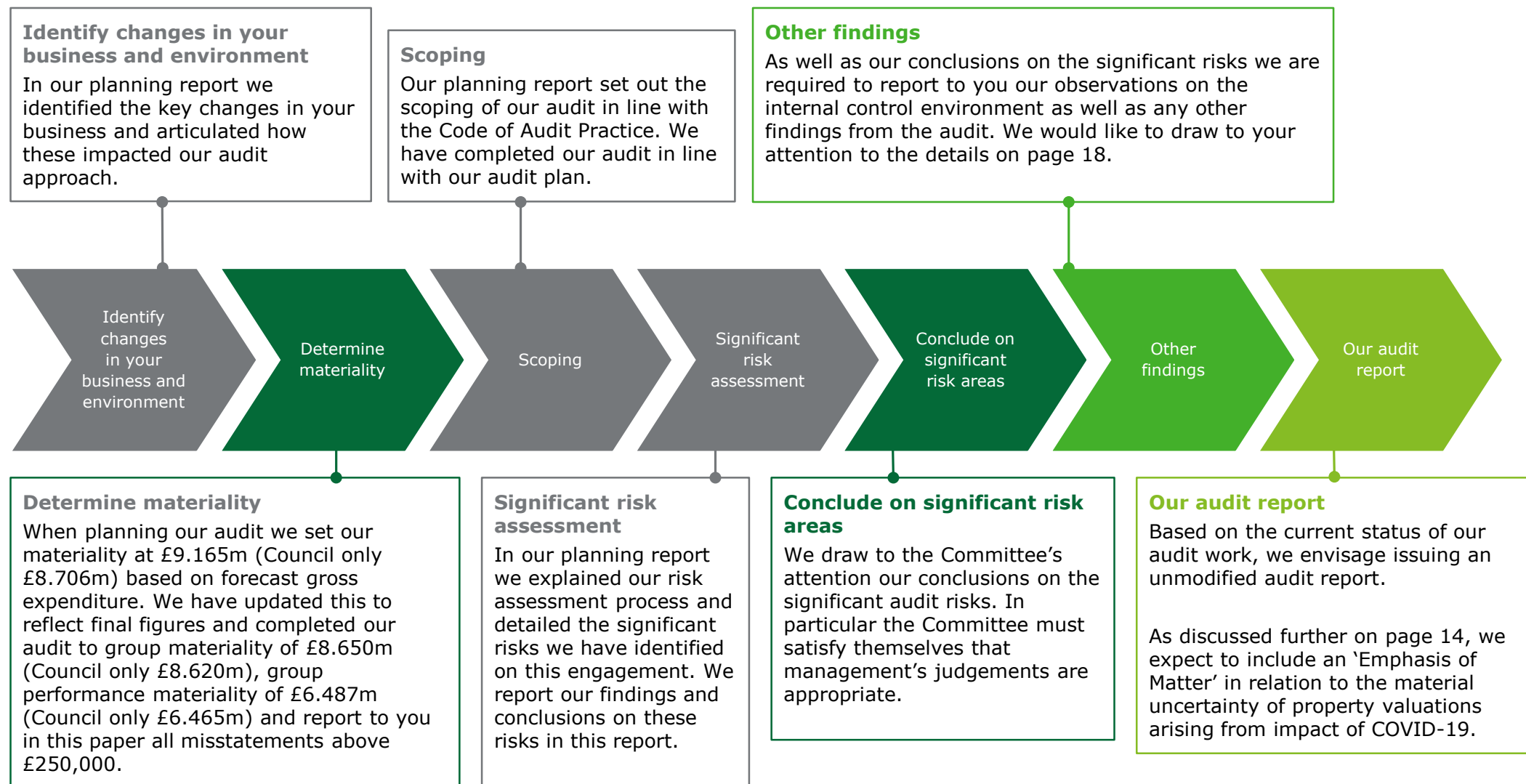
Developing



Mature







# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Recognition of grant income			D+I		Satisfactory	11
Management override of controls			D+I		Satisfactory	12

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 - Recognition of grant income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

Key components of income for the Council are summarised in the table below. The General Revenue Grant and Non-Domestic Rates income which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100% to third party evidence therefore there is little scope for manipulation. Similarly, the income from the IJB relates to services Commissioned from the Council and can be verified 100%. Council tax and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error. Finally, we perform detailed assurance work on housing benefits and therefore are satisfied that these amounts are not a significant risk area.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and service specific grants.

### Key judgements and our challenge of them



Grant income is a significant risk due to:

- management judgement in determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

### Deloitte response



We have performed the following:

- assessed management's controls around recognition of grant income; and
- tested a sample of capital grants and grants credited to services to confirm these have been recognised in accordance with any conditions applicable and applicable accounting standards.

Type of income	2019/20 (£m)	Significant risk
<b><u>Taxation and Non-Specific Grant Income</u></b>		
Council tax income	57.0	
Non domestic rates	41.1	
General revenue grant	233.6	
<i>Capital Grants and Contributions</i>	39.1	✓
<b><u>Service Income</u></b>		
<i>Service Specific Grant Income</i>	31.7	✓
Housing Benefit Subsidy	41.9	
Housing Revenue Account	49.5	
IJB commission income	122.1	
Other Service Income	40.3	
<b>Total Service Income</b>	<b>285.5</b>	

### Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Council's results throughout the year were projecting underspends in the year. This was closely monitored with a good understanding of the reasons for the variances; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Accounting estimates and judgements (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud, as set out in the summary on the following page. We concluded that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements including the pension liability, valuation of property assets, and provisions focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

### Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed to date.



# Significant risks (continued)

## Risk 2 - Management override of controls (continued)

### Key judgements

The key judgement in the financial statements are those which we have selected to be the significant audit risks around the recognition of grant income (page 11). While not considered to be significant audit risks, we have considered the assumptions used to calculate the pension liability (page 15), the valuation methodology for property valuations (page 14), and the recognition of expenditure (page 17). In the table below, we set out our challenge of the assumptions used in the determination of provisions. As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Provisions	<p>The total provisions held within the Council's balance is immaterial, at £2.699m. This comprises provisions a number of individually immaterial provisions, including:</p> <ul style="list-style-type: none"> <li>• £0.885m in relation to estimated abnormal development costs in relation to Council House development sites.</li> <li>• £0.695m in relation to the Council's landfill site at Shewalton in Irvine.</li> <li>• £0.545m in relation to employee retiral commitments the Council had in place at 31 March 2020.</li> <li>• Other smaller provision in relation to equal pay, employee costs of paid absences, teachers maternity pay and potential liabilities to meet expenditure incurred in respect of the former Cunninghame District Council and Strathclyde Regional Council.</li> </ul>	<p>We examined the rationale for each provision, including a retrospective review of amounts provided in 2018/19. We have consulted with the Council's legal experts to confirm completeness of the provisions.</p> <p>In relation to the provision for equal pay, we have challenged the completeness of the provisions made through review and discussion with the Council's legal advisors and benchmarked with our industry knowledge.</p> <p>We concluded that the provisions made were reasonable.</p>



# Other areas of audit focus

## Property valuations

### Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Council's valuer in previous years and concluded it was robust.

The Council has had an independent valuation carried out at 31 March 2020 for the purposes of the 2019/20 financial statements as part of its five-year rolling programme. The Council's also engaged the District Valuer to carry out a full valuation of HRA property assets during the year. The impact of COVID-19 has led to a material uncertainty being identified by the Council's property valuer regarding the valuation of properties. Although our overall assessment of the risk level regarding the Council's property valuation, has not increased to 'significant', we expect to include an 'Emphasis of Matter' in our Independent Audit Report.



### Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation being carried out in line with previous years. The Council's revaluation has resulted in a net downward revaluation to property values of 9.008m.

Both the District Valuer and internal valuer identified a material uncertainty due to the impact of COVID-19 on individual markets, this is in line with RICS guidance published on 18 March 2020, as follows:

*"The outbreak of the Novel Coronavirus (COVID-19) declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

*Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review".*



### Deloitte response

- We have engaged our property specialists in relation to the impact of COVID-19 as well as reviewing the methodology and assumptions in the HRA valuation;
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.
- We have reviewed both the District Valuer and internal valuer's reports and assessed managements disclosure of the key source of estimation uncertainty.
- We have assessed managements disclosure of the key source of estimation uncertainty.

### Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of the Council's estate is appropriate. However, we expect to include an 'Emphasis of Matter' in our Independent Audit Report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market.

This has been appropriately disclosed in the notes to the financial statements.

# Other areas of audit focus (continued)

## Defined benefits pension scheme

### Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

The net pension liability has decreased from £198.942m in 2018/19 to £122.116m in 2019/20. The decrease is as a result in changes in assumptions, specifically driven by reduced inflation assumptions, resulting in a reduction in the value of pension liabilities, partly offset by a reduction in the return on Scheme assets, resulting in the change in the value of the pension assets.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £6.701m to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The Council's actuary has estimated that the potential impact of this is an £561,000 understatement of the liability. This is an estimate and the actual cost could be different. This has also been updated for in the final accounts.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £0.778m to the liability disclosed in the draft accounts which have been updated in the final accounts.



### Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below.
- We have requested assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary.
- we assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
- we have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities.
- we reviewed the disclosures within the accounts against the Code.

	Council	Comments
Discount rate (% p.a.)	2.3%	Prudent and reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	2.7%	Prudent end of reasonable range
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.9%	Prudent end of reasonable range
Pension increase in payment (% p.a.)	1.9%	Reasonable
Pension increase in deferment (% p.a.)	1.9%	Reasonable
Salary increases	3%	Real salary increases 1.1% above CPI inflation
Mortality assumptions	Various	Prudent

### Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin (net impact was a reduction in liability of £6.484m), we are satisfied that the net pension liability disclosed in the accounts is materially correct.

# Other areas of audit focus (continued)

## Expenditure recognition

### Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on the basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This was therefore not been assessed as a significant risk area, but continued to be an area of audit focus.



### Deloitte response

We performed the following procedures to address the above risk:

- A review of the number and median value of invoices processed in the year. As illustrated in table opposite, based on the medium amount, the Council would need to omit over 37,361 invoices at year-end to result in a material error. We noted that in the month following the year-end, a total of 8,216 invoices were processed. We therefore concluded that a risk of material misstatement was remote.
- An analytical review to test the completeness and accuracy of year-end creditor balances was carried out. We are satisfied that the amount recorded is reasonable.

	Invoice Analysis
Median invoice amount	£230.72
Average number of invoices processed per month	4,834
Number of invoices that would need to be unrecorded to cause a material misstatement	37,361
Total invoices processed in April 2020 (one month after year-end)	8,216 (total value £33.3m)

### Deloitte view

We have concluded that expenditure has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

# Other areas of audit focus (continued)

## Charitable trusts

### Risk identified

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each charity, and a separate audit of each. North Ayrshire Council administers eight such registered charities, disclosed in a single set of annual accounts. This is in accordance with the connected charities rules.

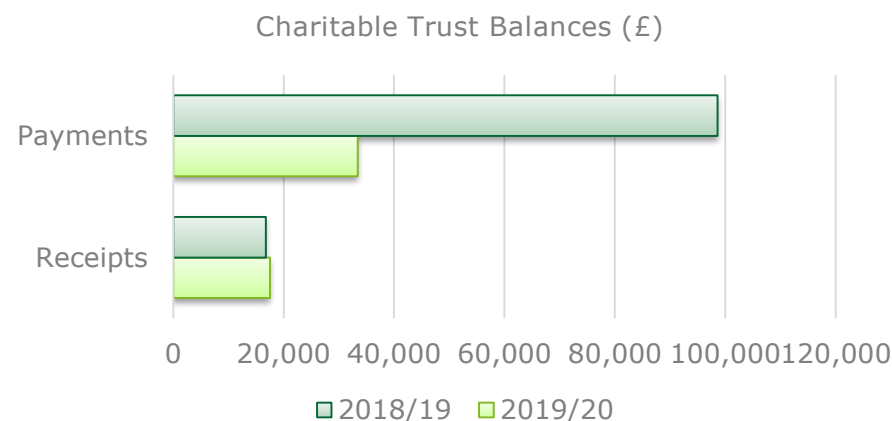
As the gross income of each of the Trusts is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.



### Deloitte response

We have assessed that the Statement of Receipts and Payments and the Statement of Balances to ensure these have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006.

A summary is provided in the table adjacent. From an initial review of draft annual accounts we note that there has been a large movement in payments which have dropped from £98k in 2018/19 to £33k in 2019/20. The biggest decline was reported in payments for Kilwinning Trust which dropped by £61k (78%) as a result of Council's policy in prior year to encourage the utilisation of funds in support of suitable projects within the relevant communities.




### Deloitte view

Our testing of the charitable trusts is still ongoing at time of issuing this report, but from the procedures completed to date on annual accounts we have found no issues. A verbal update will be provided to the Committee on conclusion of this work.

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified one internal control and risk management finding, which we have included below for information.

Area	Observation	Priority
IT Systems	During the IT review of Council’s system there were two control deficiencies identified by IT specialists which have been communicated to the management. Management have considered these and confirmed that compensating controls are in place to mitigate the risk associated with these deficiencies. There has been no impact on the audit from these deficiencies as no control reliance is placed on IT controls during our audit.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other significant findings (continued)

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### Qualitative aspects of your accounting practices:

The Council's accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

We identified areas some areas where disclosures could be improved in line with accounting standards and best practice which management have agreed to change in the final accounts.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, including the impact of the material valuation uncertainty on PPE valuations.

### Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We received an objection to the Council's accounts in accordance with section 101 of the Local Government (Scotland) Act 1973 in relation to the Common Good and Trust Funds. We have provided an initial response and currently considering the detail. Any significant matters arising will be reported to the Audit and Scrutiny Committee prior to the approval of the accounts.

We will obtain written representations from the Council on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# Coronavirus (Covid-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS and care sector is most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and the Committee need to consider. CIPFA has issued guidance relating to the impacts on the annual report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on Council annual report and financial statements	Impact on our audit
<p>The Council need to consider the impact of the outbreak on the annual report and financial statements including:</p> <ul style="list-style-type: none"><li>• Principal risk disclosures</li><li>• Change in the funding regime for 20/21</li><li>• Property valuation material uncertainty</li><li>• Impairment of non-current assets</li><li>• Allowance for expected credit losses</li><li>• Fair value measurements based on unobservable inputs</li><li>• Onerous contracts and any potential provisions</li><li>• Going concern</li><li>• Events after the end of the reporting period</li></ul>	<p>COVID-19 has fundamentally changed the way we have conducted our audit this year including:</p> <ul style="list-style-type: none"><li>• Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Council staff.</li><li>• The teams have had regular status updates to discuss progress and facilitate the flow of information.</li><li>• Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.</li><li>• In conjunction with the Council staff, we will continue to consider any developments for potential impact up to the finalisation of our work in September 2020.</li></ul>

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



### **Our opinion on the financial statements**

Our opinion on the financial statements is expected to be unmodified.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Council is faced with financial sustainability issues (as discussed on page 5), it achieved a balanced budget in 2019/20 and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



### **Emphasis of matter and other matter paragraphs**

As discussed on page 14, we expect to include an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 22.



# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non-financial KPIs and made good use of graphs and diagrams. The Council also focusses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following minor amendments made during the course of the audits, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p> <p>The Council has continued to look for ways to improve the quality of management commentary including the use of graphics and charts. There is also good linkage of performance to national outcomes in line with best practice.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the council.	<p>We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages.</p> <p>We can confirm that auditable parts of Remuneration report have been properly prepared in accordance with the regulations.</p>
Annual Governance Statement	The Annual Governance Statement reports that the Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations.

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Audit and Scrutiny Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 14 September 2020

# Action plan

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report in relation to the wider scope areas and are pleased to note that one of the recommendations made have been fully implemented with the IFRS 16 point delayed due to the HM Treasury deferring the impact of this for another year.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Statements – IFRS 16 Leases</i>	We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems(see page 16).	Work is ongoing to determine the full impact of the changes in accounting requirements and embed these requirements within the Council's accounting procedures.	Head of Financial and Customer Services	31 March 2020	Medium	<p><b>Partially implemented:</b></p> <p><b>Updated management response:</b> During 2019/20 the Council identified and reviewed all current leases across the Council. Management will determine the full impact and prepare a revised opening balance sheet in the 2020/21 Accounts following the delay of IFRS16 as a result of COVID-19.</p> <p><b>Updated target date:</b> 31 March 2021</p>
<i>Financial Statements – Bank Reconciliations</i>	The Council should put in place a formal procedure for investigating reconciling items to ensure that they are valid and followed up on a timely basis with appropriate action taken where necessary (see page 16).	An internal process has been implemented to investigate all outstanding bank items on a monthly basis and hold regular meetings cross service to address all reconciling items and ensure corrective action is taken.	Head of Financial and Customer Services	31 March 2020	Low	<p><b>Fully implemented</b> – reconciling items relates to 2019/20.</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in the recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No concerns have been identified regarding fraud.



# Independence and fees



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Scrutiny Committee for the year ending 31 March 2020 in our final report to the Audit and Scrutiny Committee.	
Fees	The audit fee for 2019/20, in line with the fee range provided by Audit Scotland, is £302,520 as analysed below:	
		£
	Auditor remuneration	184,610
	Audit Scotland fixed charges:	
	Pooled costs	18,060
	Performance Audit and Best Value	88,690
	Audit support costs	11,160
	<b>Total proposed fee</b>	<b>302,520</b>
	In addition, the audit fee for the charitable trusts audit is £1,200.	
	There are no non-audit services fees proposed for the period.	
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.	
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.	
	We are not aware of any relationships which are required to be disclosed.	



# Quality of public audit in Scotland

## Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

### Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

### Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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